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SPECIAL REVENUE FUNDS

Anti-Tobacco Master Settlement Agreement Revenue Fund

The attorneys general of most states and the major United States tobacco companies agreed to settle more than 40 pending lawsuits brought by states against the tobacco industry. This fund accounts for monies received through the Master Settlement Agreement (MSA) signed by parties to the lawsuit on November 23, 1998.

***Anti-Tobacco Master
Settlement Agreement
Revenue Fund***

(\$000s)	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 13,803	\$ 10,569	\$ (3,234)	(23.4%)
<i>Expenditure</i>	16,366	12,571	3,795	23.2%
<i>Fund Balance (est.)</i>	3,307 *	3,903	596	18.0%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

The \$3.2 million revenue variance is primarily the result of lower than budgeted use of a cash flow loan from the Sewage Treatment Plant Connection Fee Fund (\$1.0 million received out of the \$4.5 million budgeted) and the below budget receipt of interest earnings (\$15,000 variance), partially offset by higher than budgeted revenue from the master tobacco settlement (\$281,000). A short-term loan of \$4.5 million was budgeted from the Sewage Treatment Plant Connection Fee Fund for cash flow purposes in this fund for use as necessary, given the fact that revenue from the national settlement is not received until late Spring. The amount that it was necessary to borrow was \$3.5 million less than anticipated. The amount of each year's tobacco settlement payment is difficult to estimate and subject to change depending on a number of factors including inflation, sales by the tobacco industry, and changes in market shares of the settling tobacco companies. Thus, variances between the projected and actual amounts are likely to continue to occur.

The expenditure variance of \$3.8 million also reflects primarily the lower than budgeted need for Sewage Treatment Plant Connection Fee Fund loan repayments (\$3.5 million variance) as discussed above. A portion of the remaining savings (\$135,000) was rebudgeted into 2006-2007 as part of the Adopted Operating Budget. The projects rebudgeted were Northside Community Center project (\$63,000) and Kindergarten Readiness Program (\$72,000).

The 2005-2006 ending fund balance is higher than estimated due to the combination of unexpended project funds and unanticipated interest earnings. The additional interest earnings will be added to the interest earnings reserve per Council policy.

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SPECIAL REVENUE FUNDS (CONT'D.)

Benefit Funds

The Benefit Funds consist of the Dental Insurance, Life Insurance, Unemployment Insurance, and Benefit Funds. These funds account for the provision and financing of benefits to City employees, retirees, and their dependents.

Introduction

The Benefit Funds are designed to generate revenues sufficient to cover administrative costs, anticipated claims, premiums, expenditures and the claims reserve for each fund when applicable. Benefit rates are then determined to produce the necessary revenues to cover the projected costs.

These funds are not designed to carry significant unrestricted fund balances, though they do carry adequate claims reserves. Therefore, when unrestricted fund balances increase beyond reasonable levels as a result of higher revenues than expenditures in a particular year, the budgets for the following year are developed with the intention of reducing those balances through downward rate adjustments. Conversely, rates are increased to augment claims reserves as needed.

Benefit Funds

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 66,771	\$ 65,714	\$ (1,057)	(1.6%)
<i>Expenditure</i>	70,078	65,128	4,950	7.1%
<i>Fund Balance (est.)</i>	5,521 *	6,072	538	9.7%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

Overview of 2005-2006 Activity by Fund

- Dental Insurance Fund: Revenues were above the modified budget (\$10.4 million) by 0.8% or \$81,000. Revenues were slightly higher than anticipated due to higher interest earnings offset by lower than budgeted participant contributions and retiree contributions in the dental plan. Expenditures were below budget by \$583,000 (5%). The positive expenditure primarily variance reflects claims costs which were lower than anticipated for the Delta Dental Plan, and lower than expected expenditures for the HMO (health maintenance organization) dental plan, as well as savings in both Personal and Non-Personal/Equipment appropriations. The fund balance exceeded estimated levels by

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SPECIAL REVENUE FUNDS (CONT'D.)

Benefit Funds (Cont'd.)

Overview of 2005-2006 Activity by Fund (Cont'd.)

- Dental Insurance Fund: (Cont'd.) \$389,000 due primarily to the lower than anticipated claims costs associated with the Delta Dental Plan.
- Life Insurance Fund: Revenues ended the year at slightly lower than the budgeted level (0.4%, or \$7,000). Expenditures were \$60,000, or 4%, lower than budgeted. The variance in expenditures was mainly due to savings in life insurance premiums. Although revenue came in at slightly lower levels than budgeted, the year-end fund balance was higher than estimated (\$5,000) due to lower levels of actual expenditures.
- Unemployment Insurance Fund: Revenues ended the year below the modified budget level by 8%, or \$98,000. Revenues were lower than budgeted due to lower collections through the interfund charge process. Expenditures were \$563,000 lower than the modified budget level of \$1.2 million largely due to the lower than budgeted level of unemployment claims. The fund balance exceeded estimated levels by \$188,000, reflecting the higher than estimated expenditure savings.
- Benefit Fund: Revenues and expenditures within this fund represent the amount City departments contribute to several specific employee benefits. Health coverage is the largest of the benefits, but also included are revenues and expenditures for AFSCME (American Federation of State, County, and Municipal Employees) legal assistance, OE3 (Operating Engineers Local 3) vision care, FICA-Medicare payments, and PTC-457 Program (part-time, temporary, and contractual employees contributions for retirement).

Revenues ended the year below the modified budget level by 3% or \$1.4 million, and expenditures were slightly lower than anticipated by 2%, or \$1.1 million. This is primarily due to lower than budgeted revenues and expenditures related to health coverage, FICA-Medicare payments, and PTC Payments.

The fund balance was lower than estimated levels by \$31,000. This primarily reflects the combined impact of lower than estimated and lower than anticipated revenues.

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SPECIAL REVENUE FUNDS (CONT'D.)

Community Development Block Grant Fund

This fund accounts for federal grant monies received from the U.S. Housing Urban and Development Department under Title II of the Housing and Community Development Act of 1974 and Rental Rehabilitation Program funds.

***Community
Development
Block Grant Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 12,976	\$ 13,394	\$ 418	3.2%
<i>Expenditure</i>	19,169	15,087	4,082	21.3%
<i>Fund Balance (est.)</i>	7,203 *	9,424	2,221	30.8%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

The \$418,000 revenue variance is primarily the result of higher than anticipated collections related to loan repayments and miscellaneous revenues. Specifically, additional revenue resulted from an increase in economic development assistance loans, pre-development loan repayments, miscellaneous revenue, and housing rehabilitation loan repayments. Revenue from the economic development assistance loan program (\$391,000) is recommended in this report to be reinvested for use in this program.

The \$4.1 million expenditure variance reflects unexpended project funds. Of this amount, \$2.4 million was rebudgeted into 2006-2007 as part of the Adopted Operating Budget. The projects rebudgeted include 11th and William Street Park Acquisition (\$650,000), Greater Gardner Street Reconstruction (\$500,000), Alma Community Center (\$286,000), Korean American Community Center Development (\$242,000), Predevelopment Loan Program (\$240,000), Kidango Linda Vista Children's Center Renovations (\$193,000), Capitol Park Neighborhood Center (formerly known as Goss Community, \$115,000), Therapeutic Recreation and Wellness Facility Pre-Development Study (\$100,000), Welch Park Improvements (\$51,000), and Street Light Minor Request (\$15,000).

Additional rebudgets of \$870,000 of unexpended funds are recommended in this report. The following is a list of projects recommended to be rebudgeted: EDA Revolving Loan Fund Expansion (\$391,000), Improved Client Services Delivery (\$74,000), O'Connor Park Restroom Building (\$249,000), and Yu-Ai Kai Acquisition (\$156,000).

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SPECIAL REVENUE FUNDS (CONT'D.)

Community Development Block Grant Fund (Cont'd.)

The remaining expenditure variance reflects unexpended project funds (\$820,000). This is primarily from lower than expected expenditures for CDBG Administration, Code Enforcement Low-Moderate Areas project, the Tully-Senter Hub Development project, and minor savings in many of the Fund's appropriations.

The 2005-2006 ending fund balance is \$2.2 million higher than estimated primarily due to the expenditure savings and higher than estimated revenue collections. As discussed above, \$870,000 of this additional fund balance is recommended to be rebudgeted for specific projects.

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SPECIAL REVENUE FUNDS (CONT'D.)

Community Facilities Revenue Fund

The Community Facilities Revenue Fund was established to account for the financing and operation of the Hayes Conference Center.

***Community Facilities
Revenue Fund***

<i>(000s)</i>	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 5,926	\$ 5,598	\$ (328)	(5.5%)
<i>Expenditure</i>	6,461	6,221	240	3.7%
<i>Fund Balance (est.)</i>	283 *	206	(77)	(27.2%)

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

Effective January 1, 2004, Dolce International/San José, Inc. (Dolce) was appointed the new manager of the facility under the terms of a ten-year (with options to extend) management agreement with the City. As part of the agreement, Dolce transfers the necessary money from Hayes Mansion operations to this fund for debt service and to reimburse the City for some operating costs, such as insurance.

The revenue variance of \$328,000 is primarily due to the non-transfer of \$350,000 from the Hayes Phase III Bond Fund, as it was not necessary. All other revenues were received as budgeted.

When the 2005-2006 Adopted Operating Budget was developed, a reserve in the amount of \$1.6 million was established in the General Fund to subsidize a portion of the required debt service payments for the Hayes Mansion. In October 2005, it was determined that insufficient revenues would be realized in this fund and that the \$1.6 million transfer from the General Fund would be necessary. In addition, it was determined that another \$450,000 from the General Fund and \$350,000 from the Bond Fund would be necessary in order to support projected expenditures. Although there was some improvement in revenues in 2005-2006 compared to 2004-2005, revenue performance is not expected to occur at a level sufficient to fully cover operating expenses plus debt service in the near future.

The expenditure variance of \$240,000 is due to savings from the Hayes Capital Improvement project.

In developing the 2006-2007 Adopted Operating Budget, a review of both revenues and expenditures at the facility was completed in order to address any shortfall. For 2006-2007, a

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SPECIAL REVENUE FUNDS (CONT'D.)

Community Facilities Revenue Fund (Cont'd.)

transfer from the General Fund in the amount of \$4.2 million to the Community Facilities Revenue Fund was approved.

The 2005-2006 ending fund balance is \$77,000 lower than estimated primarily due to the combination of a transfer that did not occur and expenditure savings. The fund balance is intended to remain in a reserve for future debt service payments.

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SPECIAL REVENUE FUNDS (CONT'D.)

Convention and Cultural Affairs Fund

The Convention and Cultural Affairs Fund was established to account for operations of the San José McEnery Convention Center, the Center for the Performing Arts (CPA), Civic Auditorium, Montgomery Theater, Exhibit Hall and their related facilities and grounds.

***Convention and
Cultural Affairs Fund***

<i>(000s)</i>	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 14,376	\$ 14,569	\$ 193	1.3%
<i>Expenditure</i>	13,697	13,889	(192)	(1.4%)
<i>Fund Balance (est.)</i>	289 *	578	289	100.0%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

The Convention and Cultural Affairs Fund accounts for the operation of the City's Convention Facilities that are managed by Team San José. In 2005-2006, activity at the Convention Facilities generated higher than anticipated revenues. The actual revenue collections were \$193,000 above the budgeted level due to higher than anticipated space rental and concessionary income (\$230,000), offset by lower than estimated interest earnings.

Total expenditures in this fund, however, exceeded the budget by a net total of \$192,000. The Non-Personal/Equipment appropriation ended the year over by \$517,000, despite the fact that it was increased by \$950,000 in May. As identified to the City Council in May, the major factors that contributed to this increased need were: impacts upon aging facilities that had not received scheduled maintenance and repair; contracting for outside services due to higher than anticipated activity levels; and the payment of some 2004-2005 expenditures with 2005-2006 funds. This additional overage of \$517,000 which occurred at year-end is due to additional contractual employees and a higher than previously estimated Accounts Payable balance. Partially offsetting this overexpenditure in non-personal/equipment were savings in personal services (\$303,000) and some minor savings in other areas.

As part of this document, \$511,795 of additional 2005-2006 Transient Occupancy Tax Revenue are being transferred to this fund. A portion of these funds (\$250,000) are recommended to be added to the Miscellaneous Improvement appropriation for three urgent capital projects: Convention Center Cooling Tower Repairs (\$100,000), Parkside Hall Floor Replacement (\$100,000) and a Convention Center Building Assessment (\$50,000).

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SPECIAL REVENUE FUNDS (CONT'D.)

Convention and Cultural Affairs Fund (Cont'd.)

The 2005-2006 ending fund balance (prior to the actions proposed in this document) is \$289,000 higher than estimated primarily due to the combination of higher than expected revenue which more than offset higher than estimated expenditures.

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SPECIAL REVENUE FUNDS (CONT'D.)

Home Investment Partnership Program Fund

The Home Investment Partnership Program Act, enacted by Congress in 1990, established a program of federal assistance to State and local governments for affordable housing projects. The City established the Home Investment Partnership Program Fund (HOME) in 1993-1994 to utilize the available federal funding for activities associated with housing rehabilitation and new construction. This fund is also utilized for federal Rental Rehabilitation Program activities.

***Home Investment
Partnership Program
Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 7,305	\$ 5,928	\$ (1,377)	(18.9%)
<i>Expenditure</i>	8,072	7,043	1,029	12.7%
<i>Fund Balance (est.)</i>	274 *	56	(218)	(79.6%)

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

The expenditures in this fund are primarily allocated as loans and grants for the development of affordable housing. The U.S. Department of Housing and Urban Development (HUD), the main funding agent, allows the Housing Department a maximum of two years to commit to a project and two more years for completion of a project.

Generally, variances in revenue and expenditures are due to delays in capital projects that qualified for federal funds. As expenditures are incurred, HOME funds are disbursed to the City as reimbursement revenue. For 2005-2006, the revenue and expenditure variances are due to personnel cost savings in the Housing Department and in the Attorney's Office. In addition, project delays in the Housing Rehabilitation Program were anticipated in 2005-2006 and funds were reprogrammed for 2006-2007. The bulk of 2005-2006 expenditures were utilized to fund first-time homebuyer loans for San José teachers.

The negative variance in fund balance is primarily due to lower than anticipated reimbursement revenue and project savings. This report therefore includes a corresponding adjustment to the 2006-2007 beginning fund balance and a recommendation to reduce the appropriation for Home Loans and Grants by \$250,000.

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SPECIAL REVENUE FUNDS (CONT'D.)

Housing Trust Fund

The Housing Trust Fund was established to assist non-profit service providers and organizations by providing one-time grants for housing and homeless related projects.

***Housing
Trust Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 3,102	\$ 1,855	\$ (1,247)	(40.2%)
<i>Expenditure</i>	4,900	2,877	2,023	41.3%
<i>Fund Balance (est.)</i>	2,224 *	2,793	569	25.6%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

This fund was established with an initial balance of almost \$2.0 million in one-time funds from the defeasance of 1983 through 1985 Single Family Mortgage Revenue Bonds. It has no identified source of ongoing funding. Over the years, however, additional funding has been allocated from various sources such as bond administration fees, tax credit application review fees, and in-lieu fees from housing developers in Redevelopment Project Areas, among others. These funding sources are, however, by their nature unpredictable.

In 2003-2004, the City received State approval for a \$1.5 million grant from Proposition 46 funds. The grant was contingent upon the City committing \$2.0 million in matching funds for new construction projects. The revenue and expenditure variances in this fund were due primarily to various projects related to this grant which have been deferred. It is anticipated that the balance of project expenses and subsequent reimbursements for this grant will occur in 2006-2007.

The 2005-2006 ending fund balance variance of \$569,000 is the result of higher than anticipated revenues from in-lieu fees from housing developers and interest earnings, and from expenditure savings.

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SPECIAL REVENUE FUNDS (CONT'D.)

Integrated Waste Management Fund

The Integrated Waste Management (IWM) Fund was established effective July 1, 1994. The fund collects revenues from the City's Recycle Plus program and through fees on other solid waste services as authorized by AB 939, the State law requiring cities to reduce waste landfill by 50% by the year 2000 and maintain this diversion rate every year thereafter. This fund is expended for programs related to the City's efforts to comply with that law, along with other integrated waste management services.

***Integrated Waste
Management Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 85,050	\$ 79,571	\$ (5,479)	(6.4%)
<i>Expenditure</i>	90,304	88,284	2,020	2.2%
<i>Fund Balance (est.)</i>	9,702 *	5,136	(4,566)	(47.1%)

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

Revenue ended the year approximately 6.4% lower (\$5.5 million) than the budgeted level. The negative variance primarily resulted from lower than budgeted commercial paper proceeds related to the Consolidated Utility Billing System (C-UBS) (\$4.5 million) now expected to be received in 2006-2007; bulky goods and excess trash collections (\$228,000); and Recycle Plus collections related to single-family dwellings (SFD) (\$937,000) and multi-family dwellings (MFD) (\$247,000). The Recycle Plus revenue estimate assumed for the 2005-2006 Adopted Operating Budget that SFD and MFD garbage collection rate increases would be effective August 1, 2005. Approval of the rates was deferred until March 2006, with an effective date of April 1, 2006. The deferred approval date resulted in lower than anticipated revenue. This negative revenue variance is partially offset by higher than anticipated revenues from AB939 fee collections (\$107,000), interest earnings (\$490,000), and Recycle Plus late fees (\$24,000).

Expenditures in this fund ended the year with savings of \$2 million (2.2% below budgeted level). Savings occurred in the Environmental Services Department (\$1.3 million) due to non-personal/equipment savings (\$569,000) related to marketing outreach and program activities, lower than anticipated single-family dwelling contract costs (\$119,000) and yard waste and street sweeping contract costs (\$565,000), and vacancy savings (\$42,000). Additional savings occurred in the Finance (\$168,000), General Services (\$174,000), and Transportation (\$52,000) Departments; the C-UBS appropriation (\$218,000); and Workers' Compensation Claims (\$82,000). A portion of the savings (\$525,000) was assumed and rebudgeted into 2006-2007 as part of the Adopted Operating Budget. The projects rebudgeted were Public Area Recycling

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SPECIAL REVENUE FUNDS (CONT'D.)

Integrated Waste Management Fund (Cont'd.)

Program (\$185,000) and C-UBS Project (339,990). As part of this document, savings are recommended for rebudget to partially offset costs associated with the C-UBS for consultants and new hauler configuration and modifications (\$665,000); C-UBS Project (\$26,670) and for Finance Department C-UBS related expenses (\$330,558). Additional funding is recommended for the Recycle Plus Program for consultants and staffing costs in preparation for transition to the new Recycle Plus contracts (\$350,000); and development costs for the relocated Household Hazardous Waste facility (\$270,000).

The Integrated Waste Management Fund ended the year with a lower than estimated fund balance (\$4.6 million) due to lower than anticipated revenue mainly because of the timing of receiving the proceeds from commercial paper (\$4.5 million). The expenditure related to these proceeds has been encumbered, however, the related revenue will be received in 2006-2007. A portion of the actual \$5.1 million ending fund balance was set aside as a reserve in the 2006-2007 Adopted Operating Budget for the C-UBS in order to stabilize potential future rate increases after the project comes online. An additional \$1.6 million was set aside as a contingency reserve.

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SPECIAL REVENUE FUNDS (CONT'D.)

Library Benefit Assessment District Fund

The Library Benefit Assessment District (BAD) program was approved by City Council following an advisory measure on the November 1994 ballot. The BAD program provided needed funding to acquire new books and materials, to improve educational programs, and to repair and upgrade libraries. The benefit assessment fee began in 1995-1996 and was to be collected for a period not to exceed 10 years. 2004-2005 was the tenth and final implementation year of the Library Benefit Assessment. In anticipation of the 2004-2005 sunset, the City included a measure in the November 2004 election for a new tax beginning in 2005-2006. The measure passed, therefore, starting in 2005-2006 the Library Parcel Tax replaced the Library Benefit Assessment District.

***Library Benefit
Assessment District
Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ -	\$ 80	\$ 80	N/A
<i>Expenditure</i>	2,895	2,892	3	0.1%
<i>Fund Balance (est.)</i>	- *	88	88	N/A

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

Revenues in this fund for 2005-2006 were made up entirely of interest earnings. Almost all expenditures were completed as planned. The rebudget of \$88,000 in fund balance is recommended to fund various non-personal/equipment expenses related to the Library Department's operating costs in 2006-2007 and to complete the close-out of this fund.

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SPECIAL REVENUE FUNDS (CONT'D.)

Library Parcel Tax Fund

The Library Parcel Tax program was approved by the voters of the City of San José on November 4, 2004 to provide funding for Library purposes such as acquisition of library books and materials, development and delivery of homework and educational programs, and repair, equipping and staffing of libraries.

***Library Parcel
Tax Fund***

(\$000s)	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 6,140	\$ 6,268	\$ 128	2.1%
<i>Expenditure</i>	5,851	2,367	3,484	59.5%
<i>Fund Balance (est.)</i>	2,964 *	3,901	937	31.6%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

In 2005-2006, year-end revenues had a positive variance of \$128,000 primarily due to higher than anticipated tax collections. Total expenditures ended the year \$3.5 million below budgeted levels due to lower than estimated expenditures for non-personal/equipment, acquisition of materials, and automation projects. Approximately \$1.1 million was rebudgeted in the 2006-2007 Adopted Operating Budget for acquisition of materials (\$700,000), automation projects (\$200,000) and non-personal/equipment items such as supplies and materials (\$155,000). An additional \$327,000 for personal services, \$255,000 for non-personal/equipment, and \$100,000 for automation projects are being recommended for rebudget in 2006-2007 as part of this document.

The higher ending fund balance (\$937,000) is the result of the combined impact of the lower than estimated expenditures and higher than estimated revenues. As discussed above, \$682,000 of this additional fund balance is recommended to be rebudgeted to 2006-2007 to cover Library Department's operating and capital expenditures.

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SPECIAL REVENUE FUNDS (CONT'D.)

Low and Moderate Income Housing Fund

The Low and Moderate Income Housing Fund accounts for the 20% tax increment monies received from the San José Redevelopment Agency (SJRA) for the purposes of increasing and improving the supply of low- and moderate-income households in the City of San José.

***Low and Moderate
Income Housing
Fund***

(\$000s)	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 69,118	\$ 75,310	\$ 6,192	9.0%
<i>Expenditure</i>	86,217	78,962	7,255	8.4%
<i>Fund Balance (est.)</i>	9,789 *	16,430	6,641	67.8%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

Total revenue received in this fund in 2005-2006 was higher than budgeted primarily as a result of higher than budgeted tax increment and loan repayments received (\$16 million higher than budgeted). Partially offsetting these increases was a lower than budgeted amount of bond proceeds issued (\$21 million bond proceeds, compared to a budgeted \$26.6 million). In addition, a \$5 million Line of Credit was not utilized in 2005-2006.

The expenditure variance of \$7.3 million reflects lower than budgeted program expenditures and lower than budgeted debt service payments. A portion of these savings, program expenditures of \$3 million and savings in debt service payments of \$5 million, were anticipated in the development of the 2006-2007 Adopted Operating Budget. The positive variance in fund balance is due to the combined impact of the higher than anticipated revenues and program expenditure savings.

Included in this document are recommended adjustments to the Low and Moderate Housing Fund, including staffing changes approved as part of the approval on September 19, 2006 of the SJRA 2006-2007 budget. The increase of \$517,182 in 2006-2007 revenue estimates for the Low and Moderate Housing Fund and a corresponding increase of \$517,182 in the Loans, Grants and Site Acquisitions appropriation resulting from that action are described elsewhere in this report. The staffing changes for the Housing Department as approved by the City Council were: (a) addition of a 1.0 Housing Rehabilitation Inspector position and (b) deletion of a vacant 1.0 Office Specialist II position and addition of a 1.0 Development Specialist position. The Housing Rehabilitation Inspector will implement the Project Alliance program, which provides funding for exterior improvements to existing multi-family developments in Strong Neighborhoods Initiative areas. The Development Specialist will focus on homeless issues.

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SPECIAL REVENUE FUNDS (CONT'D.)

Multi-Source Housing Fund

The Multi-Source Housing Fund was established July 1, 2003, and is used for revenues and expenditures from various funds such as Rental Rights and Referrals fees, Strong Neighborhoods Initiative (SNI) projects, Supplemental Redevelopment Agency funds, the Housing Opportunities for People with AIDS (HOPWA) grant and others.

***Multi-Source
Housing Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 15,409	\$ 8,982	\$ (6,427)	(41.7%)
<i>Expenditure</i>	16,736	6,921	9,815	58.6%
<i>Fund Balance (est.)</i>	7,492 *	7,388	(104)	(1.4%)

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

The revenue for this fund is derived from State and federal reimbursements for expenditures incurred for qualifying projects. The negative revenue variance of \$6.4 million is due to fewer reimbursements received than budgeted for various programs funded by grants and by the State's Workforce Housing Program. The expenditure variance of \$9.8 million is the result of delays in completing projects (notably in the CalHome and Workforce Housing programs) that were anticipated and reprogrammed for 2006-2007. In addition, \$948,000 of the unspent project expenditures and reimbursement revenues were rebudgeted as part of the 2006-2007 Adopted Operating Budget. A total of \$461,000 in additional rebudgets are recommended in this report for projects in the CalHome Program, SNI Housing Rehabilitation, Workforce Housing, and Greater Gardner Rehabilitation and Hoffman properties.

The 2005-2006 ending fund balance variance of \$104,000 is the combined impact of the lower than anticipated reimbursement revenue and project savings.

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SPECIAL REVENUE FUNDS (CONT'D.)

Municipal Golf Course Fund

The Municipal Golf Course Fund accounts for the construction, management, and operation of City-owned golf courses, which include the Rancho del Pueblo, Los Lagos and San José Municipal Golf Course, and are financed through user charges.

Municipal Golf Course Fund

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 2,285	\$ 2,368	\$ 83	3.6%
<i>Expenditure</i>	2,333	1,673	660	28.3%
<i>Fund Balance (est.)</i>	111 *	764	653	588.3%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

The positive revenue variance of \$83,000 reflects a one-time contractor refund of \$264,336 for the construction of Los Lagos Golf Course offset by lower than expected revenue from the Rancho del Pueblo Golf Course.

Contributing factors that have resulted in the reduced operating revenues of Los Lagos and Rancho del Pueblo Golf Courses appear to include both the impact of the local economic slowdown and increased competition from additional local golf courses. Seven new courses have opened up in the San José area and neighboring communities since 1999.

The expenditure variance of \$660,000 reflects the combined impact of lower than expected expenditures for the Rancho del Pueblo Golf Course (\$270,000), and a portion of the budgeted debt service, which was paid in the trustee account instead of this fund resulting in a savings of \$318,620.

The 2005-2006 ending fund balance is higher than estimated due to a one-time refund and a one-time savings in debt service.

<p align="center">2005 - 2006 ANNUAL REPORT</p>

SPECIAL REVENUE FUNDS (CONT'D.)

Municipal Health Services Program Fund

The Municipal Health Services Program Fund accounts for community-based health care services to Medicare recipients at four San José clinics. Funding for this demonstration project is provided by the federal Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration.

***Municipal Health
Services Program
Fund
(\$000s)***

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 4,678	\$ 4,855	\$ 177	3.8%
<i>Expenditure</i>	4,680	4,639	41	0.9%
<i>Fund Balance (est.)</i>	829 *	1,047	218	26.3%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

The positive revenue variance of \$177,000 is primarily due to higher reimbursements for Medicare claims payments (\$93,000) and City administrative costs (\$89,000). The expenditure variance of \$41,000 is due to savings for certified costs reports, Parks, Recreation and Neighborhood Services Department's Non-Personal/Equipment appropriation, and education services. It should be noted that since the Medicare claims payment is a cost reimbursement grant, revenue is received based on reimbursement for services delivered by clinics that provide services to the elderly. It is likely that there is a variance between revenues and expenditures due to timing and receipt of revenue before the City is billed by the clinics. In addition, budgeted amounts related to Medicare claims are estimates given to the Municipal Health Services Program by the clinics. Thus, it is difficult for the clinics to forecast patient utilization of services for a number of reasons, such as program attrition.

The fund balance ended the year slightly higher than the estimated level primarily due to the higher than estimated revenue and lower expenditures associated with the Medicare claims payments as discussed above.

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SPECIAL REVENUE FUNDS (CONT'D.)

Public Works Program Support Fund

The Public Works Program Support Fund accounts for Public Works administrative costs, department-wide compensated absences, and non-personal/equipment costs. An annual cost allocation plan is developed to assign overhead rates based on service levels received by each program. The revenue source for this fund is transfers from the various capital funds where Public Works staff provides service. A compensated absence earned rate is also developed annually and charged to all city funds where Public Works employees provide service.

***Public Works
Program Support
Fund***
(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 13,189	\$ 11,636	\$ (1,553)	(11.8%)
<i>Expenditure</i>	12,845	11,609	1,236	9.6%
<i>Fund Balance (est.)</i>	641 *	323	(318)	(49.6%)

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

The negative revenue variance of \$1.6 million is the result of lower than anticipated construction activity levels, a rate that did not adequately account for expenditures made from this fund for capital program support, and lower than anticipated capital fund expenditures processed by Public Works staff. Revenues in the fund are largely dependent on expenditures in the capital programs that Public Works staff supports. The rates assigned to capital programs, which are calculated based on prior year actual expenditures rather than estimated expenditures for the current year, are intended to collect the equivalent of all expenditures made from this fund for capital program support services and compensated absences. While compensated absence costs were fully reimbursed, capital program support costs were not fully reimbursed. In accordance with the structure of this fund, the 2006-2007 rates will be adjusted to recover the 2005-2006 support cost shortfall.

The positive expenditure variance reflects savings in nearly every expenditure category, which include: administrative costs, Equality Assurance costs, non-personal/equipment, compensated time off, and other program support.

The 2005-2006 fund balance variance of \$318,000 is the result of lower than anticipated revenues, partially offset by lower than estimated expenditure levels as discussed above.

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SPECIAL REVENUE FUNDS (CONT'D.)

Special Assessment Maintenance District Funds

The Special Assessment Maintenance District Funds account for the maintenance districts that were created to provide special services for areas or items not considered to be normal City maintenance. In 2005-2006, the City operated fourteen maintenance districts and three community facility districts.

***Special Assessment
Maintenance District
Funds***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 3,940	\$ 4,026	\$ 86	2.2%
<i>Expenditure</i>	5,099	4,016	1,083	21.2%
<i>Fund Balance (est.)</i>	7,569 *	8,751	1,182	15.6%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

The positive revenue variance of \$86,000 is the result of receipts that trended slightly higher than anticipated in a majority of the districts. In particular, revenues exceeded budgeted projections by \$66,000 in Maintenance District #1 (Los Paseos) because of a higher than expected increase in property tax revenue which is unique to this district. Also, revenues exceeded projections by \$24,000 in Community Facilities District #2 (Aborn-Murillo) and Community Facilities District #3 (Silverland-Capriana) due to accelerated development of supplemental units in these districts. In contrast, Community Facilities District #8 (Communications Hill) revenues were below budgeted projections by \$35,000 due to the delay in obtaining construction permits. Without the construction permits, units were not built as scheduled. Revenue variances in the 14 remaining funds were all below \$15,000.

Savings of approximately \$1.1 million in the expenditure category in all funds combined reflects lower than anticipated maintenance costs in most districts. Given the economic downturn, districts that renegotiated maintenance contracts received favorable bids. Further savings were generated as part of a concerted effort by staff to reduce costs while maintaining service levels. Five districts had large expenditure variances. The Community Facilities District #8 (Communications Hill) had an expenditure savings of \$294,000 primarily due to the delay in acceptance of the new construction by the developers. Maintenance District #10 (Oakmead Storm Station) expenditures were \$52,000 less than budgeted resulting from the transfer of maintenance costs in this district to the Storm Sewer Operating fund. Maintenance District #15 (Silver Creek Valley) had expenditure savings of \$325,000 as a result of delays in completion of planned renovation projects. Maintenance District #20 (Renaissance-North First Landscaping)

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SPECIAL REVENUE FUNDS (CONT'D.)

Special Assessment Maintenance District Funds (Cont'd.)

had expenditure savings of \$51,000 due to savings in contractual services and utilities. Both Maintenance District #21 (Gateway Place-Airport Parkway) and Maintenance District #22 (Hellyer Ave. – Silver Creek Valley Rd.) generated savings in non-personal/equipment costs due to staffing vacancies that prevented the completion of renovation projects. Expenditure variances in the 11 remaining funds were all below \$50,000.

The combined ending fund balance variance of \$1.2 million is due to expenditure savings that exceeded the estimate by \$1.1 million, and slightly higher than anticipated revenues of \$74,000.

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SPECIAL REVENUE FUNDS (CONT'D.)

Stores Fund

This fund accounts for the purchase and issuance of materials and supplies consumed by departments for general operations.

Stores Fund

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 4,425	\$ 3,612	\$ (813)	(18.4%)
<i>Expenditure</i>	4,535	3,585	950	20.9%
<i>Fund Balance (est.)</i>	1,225 *	977	(248)	(20.2%)

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

At the end of 2005-2006, revenues were 18.4% (\$813,000) below budgeted levels, reflecting lower than budgeted activities in the fund.

Expenditures were 20.9% (\$950,000) below anticipated levels due to the implementation of expenditure control measures and lower than estimated inventory purchases. Expenditure savings were realized from lower than anticipated personal and non-personal/equipment costs.

It should be noted however that the budgetary fund balance reported in this document is \$522,000 lower than the fund balance which will be reported in the 2005-2006 CAFR. This reflects the fact that the fund balance as defined for budgetary purposes does not include an item (change in Materials Inventory beginning and ending balances) used to calculate fund balances for financial reporting purposes.

Included in this report is a recommendation for an increase of \$600,000 for postage expenditures and a corresponding increase of \$600,000 in revenues to account for city-wide postage expenses that were inadvertently omitted in the development of the 2006-2007 Adopted Operating Budget.

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SPECIAL REVENUE FUNDS (CONT'D.)

Storm Sewer Operating Fund

The Storm Sewer Operating Fund was established to provide for the acquisition, construction, reconstruction, maintenance, and operation of the storm drainage system. With the establishment of the Storm Sewer Capital Fund in 1994-1995 (which is funded primarily through transfers from this fund), expenditures are focused on non-point source pollution reduction, along with the maintenance and operation of the storm drainage system.

***Storm Sewer
Operating
Fund***
(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 15,204	\$ 15,550	\$ 346	2.3%
<i>Expenditure</i>	17,064	15,462	1,602	9.4%
<i>Fund Balance (est.)</i>	3,130 *	5,019	1,889	60.4%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

The positive revenue variance (\$346,000) is due to higher than budgeted storm drainage assessments (\$258,000) and penalties and interest earnings (\$88,000).

Expenditure savings of \$1.6 million was primarily produced in the Environmental Services Department's Non-Personal/Equipment appropriation (\$350,000), savings in the Yard Trimming/Street Sweeping appropriation (\$353,000) and the Department of Transportation's Personal Services (\$387,000) and Non-Personal/Equipment (\$382,000) appropriations. As part of this document, a portion of these savings are recommended for rebudget to partially offset costs associated with the C-UBS for consultants and new hauler configuration and modifications (\$27,482) and for the Department of Transportation to rent some additional equipment in 2006-2007 (\$10,000).

The ending fund balance ended the year \$1.9 million higher than the estimated levels. This variance was due to the combined impact of the lower than estimated expenditures and higher than anticipated revenues as discussed above.

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SPECIAL REVENUE FUNDS (CONT'D.)

Transient Occupancy Tax Fund

The Transient Occupancy Tax (TOT) is assessed as a percentage of the rental price for transient lodging charged when the period of occupancy is less than 30 days. The tax rate is currently 10%, six percent of which is placed in this fund and four percent of which is deposited in the General Fund. The uses of revenues from the TOT Fund are specified by City Ordinance and include subsidies for Convention Facilities operations and the San José Convention and Visitors Bureau as well as grants and rental subsidies for arts and cultural programs.

Transient Occupancy Tax Fund

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 9,627	\$ 11,619	\$ 1,992	20.7%
<i>Expenditure</i>	10,636	9,990	646	6.1%
<i>Fund Balance (est.)</i>	2,323 *	3,706	1,383	59.5%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

Due to much higher than expected receipts in the last half of the fiscal year, actual 2005-2006 revenues in the TOT Fund exceeded the budgeted amount by almost \$2 million.

When the 2005-2006 Adopted Operating Budget estimate (\$9.63 million) was developed, a 4% increase over the anticipated 2004-2005 year-end estimates was assumed. Revenues in 2005-2006, however, ended the year 21.2% above the 2004-2005 actuals due to higher than anticipated room rates and occupancy levels. The average room rate for the City fourteen largest hotels grew from \$114 to \$120 over the year. The average occupancy rate for the same hotels grew from 48.9% to 57.7%.

The positive expenditure variance of \$646,000 reflects savings in the Cultural Grant program. A portion of these savings (\$329,311) was rebudgeted as part of the 2006-2007 Adopted Operating Budget. The remaining \$316,152 is recommended in this document to be rebudgeted to 2006-2007.

TOT Fund tax revenue is by ordinance shared by three groups, the Convention Facilities Operation Subsidy (50%), the San José Convention and Visitors Bureau (25%), and Cultural Grants (25%). This report, therefore, contains the proposed appropriation adjustment actions required to distribute excess collections to the three groups.

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SPECIAL REVENUE FUNDS (CONT'D.)

Transient Occupancy Tax Fund (Cont'd.)

An increase of \$511,795 is recommended for the Convention Facilities Operation Subsidy. An increase of \$255,897 is recommended for the San José Convention and Visitors Bureau, and \$572,049 to the Cultural Grants, (which includes the \$316,152 in rebudgets discussed above).

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SPECIAL REVENUE FUNDS (CONT'D.)

Vehicle Maintenance and Operations Fund

The Vehicle Maintenance and Operations Fund accounts for the operation, maintenance and replacement of all City vehicles and equipment.

***Vehicle Maintenance
and Operations Fund***

	(\$000s)				
	Budget	Actual	Variance	Percent Variance	
<i>Revenue</i>	\$ 21,890	\$ 18,323	\$ (3,567)	(16.3%)	
<i>Expenditure</i>	22,585	19,493	3,092	13.7%	
<i>Fund Balance (est.)</i>	2,290 *	1,778	(512)	(22.4%)	

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

The negative revenue variance of \$3.6 million primarily reflects lower than budgeted revenues from replacement charges and lower than budgeted vehicle maintenance and operations departmental charges. During 2005-2006, all general fleet vehicle replacements continued by Council direction to be suspended. Police vehicles were purchased throughout the year, however savings were realized as a result of the ongoing Police fleet size evaluation, improved efficiency and effectiveness of the fleet, and lower than anticipated purchase prices for marked patrol vehicles. Thus, the revenues and associated expenditures for vehicle replacements were lower than budgeted. Additionally, there were several marked and unmarked vehicles that were wrecked or failed mechanically which were not replaced in 2005-2006 due to timing issues. A portion of the savings associated with these vehicles is recommended to be rebudgeted to 2006-2007 as part of this document. It should be noted, however, that efficient Police fleet vehicle rotation and management of Police marked sedans allowed for the continued deployment of safe and reliable vehicles.

The positive expenditure variance of \$3.1 million primarily reflects savings in the vehicle replacement appropriation (\$2.0 million), personal services appropriation (\$200,000) and savings in parts and fuel inventory purchases (\$373,000). Lastly, expenditures related to the Clean Air Heavy Vehicles Retrofit project (\$207,000) were delayed. This project is recommended to be rebudgeted to 2006-2007 as part of this document.

The negative ending fund balance variance (\$512,000) is primarily the result of lower than anticipated revenues, partially offset by lower than estimated expenditures. The variance is also due to encumbrances for fuel and parts costs (\$230,000) which were not liquidated as expected prior to the close of the fiscal year. Once these encumbrances are accounted for, the negative fund balance variance is only \$282,000.

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SPECIAL REVENUE FUNDS (CONT'D.)

Vehicle Maintenance and Operations Fund (Cont'd.)

It should be noted that the actual fund balance is \$2.2 million lower than the budgetary fund balance reported in the CAFR. The fund balance used for budgetary purposes does not include the change in beginning and ending Materials Inventory balances and Unrealized Gains and Losses for estimated liabilities. These non-budgetary items are, however, incorporated into the CAFR fund balance figure.

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SPECIAL REVENUE FUNDS (CONT'D.)

Workforce Investment Act Fund

The Workforce Investment Act is a federal program that provides primary employment and training services to dislocated and low-income residents. This fund is a memo fund to the General Fund for governmental accounting purposes.

***Workforce Investment
Act Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 27,491	\$ 17,968	\$ (9,523)	(34.6%)
<i>Expenditure</i>	26,024	23,967	2,057	7.9%
<i>Fund Balance (est.)</i>	1,445 *	(5,430)	(6,875)	(475.8%)

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

On July 1, 2000 the Workforce Investment Act (WIA) replaced the Job Training Partnership Training Act (JTPA), and the City of San José assumed administration and fiscal liability for this program. There are three categories of funding under WIA which correspond to the three populations being served: Adult, Dislocated Worker, and Youth. San José's Workforce Investment Area receives grants from the State and federal governments for these three categories.

The variance between revenues and expenditures primarily reflects the timing difference in expense and revenue recognition.

The fund ended the year with a negative unrestricted ending fund balance of approximately \$5.4 million due to the accounting treatment of federal reimbursements due to this program. The negative balance reflects the late posting of revenue and carryover encumbrances for committed expenses at the end of 2005-2006. Because revenue is received by the fund on a reimbursement basis, at year end, there was insufficient revenue recognized to the fund to cover the encumbered amount (\$6.16 million). Under the current WIA contract with the State, expenses will only be reimbursed when funds are actually spent, not just committed. When the encumbered amounts are actually expended, the revenue will become available to cover the costs.

Included in this report are adjustments to program budgets for 2006-2007. The development of the 2006-2007 Adopted Budget for the Workforce Investment Network (WIN) included allocation of 2005-2006 program contingency funds, 2005-2006 projected savings, and 2006-2007 State allocations (estimated at a 10% reduction from 2005-2006 State allocation levels). Although formal State notification on program allocations has not yet been released, adjustments

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SPECIAL REVENUE FUNDS (CONT'D.)

Workforce Investment Act Fund (Cont'd.)

in this document reflect final allocations for Adult and Youth programs from the State's Employment Development Department, and estimates for Dislocated Workers program based on the current State formula. The lower than estimated State allocations (final State allocations are 13.4% lower than estimated) is partially offset by the higher than estimated encumbrances from 2005-2006 and additional 2006-2007 funding of \$26,551 (\$5,000 from Merced county, \$19,821 from State Incentive Award grant, and \$1,730 from the State reallocation for Dislocated Worker Program).

The changes in program funding are not expected to result in significant changes in delivery of program services. There are no anticipated changes in the level of services provided at the One-Stop Centers and no anticipated changes in the adult and dislocated workers training classes. However, the number of enrollees for the Adult Workers Program is expected to drop from a target of 500 to 400. Also, the number of enrollees in the Older Youth Program is expected to decrease from a target of 260 to 220. In line with changes in federal guidelines, Summer Youth programs will no longer be offered in 2006-2007. In the past, about 250 youths participated in Summer Youth programs. The number of participants in Younger Youth in School programs is however expected to increase from 60 to 100. With the significant change in the State allocations, it is expected that about four temporary WIN staff positions will not be filled for 2006-2007 to generate personal services savings.